The multinational and the legitimation of sustainable development

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The Sustainable Development Goals (SDGs) recently promulgated by the United Nations General Assembly provide an opportunity to assess the potential contributions of multinational enterprises to sustainability initiatives. This article seeks to promote understanding of the context within which multinationals will or can decide to participate in such initiatives by adopting a legitimacy perspective. When viewed from the perspective of organizational legitimacy, the extent to which a multinational adopts a sustainability agenda is likely to depend on its stakeholder network and the balance of the network's variety of interests and beliefs. The article discusses current and prospective multinational activities that support the SDGs while also bolstering organizational legitimacy, and concludes with questions for future research.

1. Introduction

The United Nations General Assembly promulgated 17 Sustainable Development Goals (SDGs) in September 2015 (General Assembly, 2015) that aim to facilitate the improvement of living conditions, social stability, environmental protection and economic growth across the globe. Given the complexity of the issues with which the SDGs are concerned, the United Nations assumed that successful implementation would require the participation of a variety of contributors, not only states but also non-governmental organizations, civil society representatives and the private sector as well. Owing to the size and scope of their operations, multinationals, which by one estimate account for as much as 25% of global gross domestic product (Patchell and Hayter, 2013), are in the best position among private sector entities to significantly contribute to the success of global sustainability initiatives. The question is whether and how multinationals will do so.

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This article adopts a legitimacy perspective to assess the question of multinational involvement in endeavours such as the SDGs. When viewed from the perspective of organizational legitimacy, the actions taken by a multinational can be viewed as a reflection of its stakeholder network and the extent to which those actions balance its network's variety of interests and beliefs. In other words, the context within which decisions are made matters, either because the decisions are constrained by context or because context will determine the consequences of decisions. This article attempts to identify the key constructs underpinning organizational legitimacy and to place the SDGs in context accordingly in order to provide an agenda for future research and to aid in understanding and planning for active participation by multinational enterprises in organized, worldwide sustainability efforts.

The balance of this article considers these issues and is organized as follows. First, the concept of legitimacy and the dynamics of stakeholder interactions will be outlined to provide an appreciation of the impact of an organization's context and, consequently, the priorities it chooses to implement. Next, the SDGs are considered from the perspective of Dunning's (1993) taxonomy of foreign direct investment motivations in order to understand how multinationals might implement organizational policies and strategies that would be consistent with both SDG attainment and organizational legitimacy. Finally, questions for future research that follow from the preceding sections are identified and discussed.

2. Stakeholders and Legitimacy

The concept of organizational legitimacy derives from institutional theory (DiMaggio and Powell, 1983; Scott, 2008), the study of how organizations respond to the set of social structures within which they operate and interact. Organizational legitimacy exists to the extent the organization's actions align with normative expectations. Note that this conceptualization implies that not all social structures will be relevant to all organizations at all times; rather, the organization responds to those that are applicable to its specific operational footprint. Within institutional theory, this limitation represents the idea of the organizational field (Fligstein and McAdam, 2012), which generally relates to the organization's industry but also includes its broader network of partners, suppliers, customers and other stakeholders.

Within its field, then, the organization interacts with many different actors and is subject to norms, laws and regulations that are applicable to the field. Norms, laws and regulations derive from social conditions and interactions within the field, including patterns of behaviour that develop over time and become standard and accepted practice. Although laws and regulations certainly convey mandatory behavioural expectations, from the theory's perspective it is important to understand that behavioural norms also can acquire a mandatory character. If certain practices, structures, and strategies are well established within the field, organizations pursuing alternative strategies that differ from prevailing practice will, at the very least, need to do more to explain and justify their actions than would other, conforming organizations.

As can be surmised, the issue of variance from or conformity with accepted practice lies at the heart of organizational legitimacy. When practices become embedded in the field, it is harder for constituent organizations to justify actions that do not conform to accepted norms, and the failure to conform then contributes to a lack of organizational legitimacy. Legitimacy is critical to organizations because, the theory argues, organizations lacking legitimacy will find it harder to attract support and resources than those organizations widely viewed as adhering to legitimate practice. In extreme cases, this challenge to resource flows can give rise to organizational failure (Zimmerman and Zeitz, 2002). Therefore, organizations are subject to significant pressure to conform, and over time this pressure is expected to yield broadly consistent practices, structures and strategies within the field.

The basic structure of organizational theory just outlined leads to several insights that are relevant to consideration of how organizations generally, and multinationals in particular, might view actions that support SDG fulfilment. Initially, it is important to understand that in many instances, what is or is not legitimate can be a matter of perception among members of the firm's stakeholder network. In the case of sustainability initiatives undertaken by corporations, opinion can be split between those who prioritize "doing well by doing good" and those who adopt the more traditional view that shareholder value is the primary objective of the firm. Relatively recent trends in public opinion seeming to favour sustainability and "green" initiatives bode well for SDG participation from the perspective of organizational legitimacy. But it is important to understand that whether the firm adopts a "green" agenda, and to what extent, may depend upon the balance of opinion among stakeholders and the nature of their relationship with the firm.

The potential for conflicting stakeholder perceptions may or may not be consequential to a given firm in a given context. For example, Unilever has unabashedly pursued a "green" agenda as part of its business model. At the same time, the company's stock price has dramatically underperformed relative to the S&P 500, and it is becoming unclear whether investors will continue to support management if returns do not improve (Walt, 2017). If we assume that at least some investors perceive a trade-off between sustainability and performance, Unilever's stance demonstrates that organizations, at least in the short term, are not always subject to apparent investor preferences or required to immediately conform. Firms can be more or less pressure sensitive, and variations in the clarity or subjectivity of norms can magnify that effect. But we would also expect that pressure could increase over time, as might be expected in Unilever's case if earnings do not improve.

Another context in which the subjectivity of legitimacy arises concerns the extent to which existing institutional norms relate to developments in the field. Particularly if a given strategy or action is fairly new or novel, the interpretation of how that strategy or action fits within existing standards can be highly subjective, and again can vary from stakeholder to stakeholder. Thus, while the idea of novelty itself may not fit within standard conceptions of legitimate action, without clear precedent there is room for manoeuvre and the possibility of negotiated settlement with at least some stakeholders who are open to new approaches.

Conversely, without clarity a new development or analytical framework that reflects a developing norm may not be "read" by managers. Sustainability has been used as an example of a complex decision scenario that incorporates many interrelated and simultaneously conflicting components, with the result that cognitive processes forestall significant change from existing activities (Hahn et al., 2014). The implication is that developing norms based on sustainable practices may or may not in itself generate normative pressure.

For multinationals, the issue of normative clarity or subjectivity is both an opportunity and a threat. Because of their operational scope, multinationals commonly encounter extensive stakeholder networks, not all of which overlap. This means that, from a legitimacy perspective, no single set of strategies may permit the multinational to satisfy all stakeholders. Consequently, the normal balancing of interests undertaken by any corporation is magnified among multinationals operating in a variety of national contexts, serving multiple cultures and interacting with potentially unique partners in each case. The fact that a given approach is legitimate in one context and may, by definition, be illegitimate in another means that multinationals can be expected to alter approaches to legitimacy only when doing so will not materially alter the existing pattern of relationships across the various networks with which they engage.

By contrast, such conditions also give rise to opportunities to craft or enhance legitimacy. The nature of fields is such that corporations in general may be able to realign operations, structures and strategies to achieve a favourable balance between normative pressures and operating necessity or priorities. This may be especially true of multinationals, given the breadth of their operations. Some scholars have argued that this condition renders the concept of the field inapplicable to the multinational (Kostova, Roth and Dacin, 2008), which, if true, also suggests that normative pressures normally found in the field would be inoperable. But to the extent that pressure does exist in a given field, multinationals may be particularly well placed to shift operational emphasis from one geographic locale to others that are viewed as more congenial. In other words, if legitimacy is compromised or threatened in one locale, a shift in resource allocation patterns or physical proximity may result in enhanced overall legitimacy.

In sum, this section has presented the concept of legitimacy as a critical determinant of stakeholder support. The loss of legitimacy can have dramatic repercussions for resource availability, market presence and competitive stature. Thus, the increasing popularity of sustainability may indicate convergence towards a norm that should result in more participation by corporations as they work to maintain legitimacy. But contingency factors such as the nature of a firm's stakeholder network and the balance of interests represented therein, the relative pressure sensitivity of the organization, given its network, and normative clarity may affect how a firm interprets market signals and the strategies it enacts in response. These issues are discussed in the final section of this article as questions for additional research. The following section considers how the SDGs relate to organizational legitimacy and the practices that multinationals might implement, and indeed are implementing in some cases, as active participants in the SDG process.

3. How the SDGs Relate to Organizational Legitimacy

The SDGs cover a broad range of target outcomes and therefore may involve a variety of public and private responses. Therefore, the discussion that follows is not intended to be exhaustive, but rather proceeds from the assumption that SDG participation by multinationals will increase to the extent an underlying operating rationale exists that can justify and legitimize their participation. Specific contexts and circumstances may lead to different responses and possible categorizations than those envisioned here, and different organizations may enact different strategies in furtherance of the same broad goal. But the intent of this section is to begin the process of defining a generalized conceptual framework that ties SDG participation to specific actions that are consistent with organizational legitimacy. At the same time, such an approach helps us understand why multinationals are in a good position to support the SDGs and to identify which SDGs are most likely to be supported.

As we consider multinational operations and the kinds of practices likely to secure legitimacy, a useful starting point can be found in Dunning's (1993) taxonomy of investment motivations. Briefly stated, they include resource seeking (acquiring resources otherwise unavailable or at a lower price than possible in other markets), market seeking (investing to provide a platform to tap a new and/or larger market), efficiency seeking (gaining the benefits of scale and scope, as well as benefits associated with differences in the availability and cost of inputs) and strategic asset seeking (acquiring knowledge or resources not available within the organization or in other markets). These broadly accepted motivations can be used to legitimize a firm's investments in support of the SDGs.

We should note an important distinction between legitimacy based on the taxonomy in Dunning (1993) and the benefits that accrue from an enhanced reputation. Research has established that firms engaging in socially responsible activities are viewed more favourably and, as a consequence, can realize other important business-related benefits (Greening and Turban, 2000; Turban and Greening, 1997).

But the case for legitimacy will be stronger if core business purposes in fact are advanced at the same time; an improved reputation alone may not be sufficient to sustain the organization's long-term legitimacy. Consider the Unilever example once more: the company's reputation is undoubtedly enhanced by its various charitable endeavours, yet without bottom-line improvements one can envision a point at which philanthropy might be viewed by a majority of the company's stakeholders as an unnecessary diversion. Unilever would be in a stronger position if actual benefits consistent with Dunning's (1993) taxonomy could be cited in defence of a long-term strategy including sustainability initiatives.

The discussion to follow is organized around the SDGs that would be most likely to lie at the intersection between sustainable development and legitimacy for a broad range of organizations, and in each case the various investment motivations identified by Dunning (1993) are applied to the SDG in question. Other SDGs might be appropriate targets of involvement for specific kinds of businesses, for example, based on the nature of their individual product lines or simply because of their competitive and stakeholder contexts. Again, the purpose of this article is not to be exhaustive and comprehensive, but rather to sketch the general terms of engagement by multinationals in sustainability efforts that can simultaneously help the organization maintain legitimacy. What is also striking about all of the examples below is that the requirement of legitimacy does not appear to reduce or limit multinational participation. Indeed, when these organizations do participate, they are almost uniquely suited to make an impact within the sphere of their influence, given the size and scope of their operations.

3.1. Goal 1 (Ending Poverty)

Multinationals can significantly impact local efforts at alleviating poverty. One approach that gained popularity within the academy as well as in business circles was the "bottom of the pyramid" approach introduced by Prahalad (2004), which argued that businesses could profitably serve the unmet needs of the world's poorest citizens, enriching their lives and providing a significant return through volume at the same time. Clearly, any such efforts fall within the realm of standard business practice for a variety of firms, and represent legitimacy-enhancing means of market seeking.

But less directly market-focused efforts are possible also, and can be justified as legitimate forms of market seeking or resource seeking. TetraPak partnered with CARE International and a local company to help small dairy farmers in Bangladesh gain broader access to markets, doubling the farmers' incomes (Svarer, 2012). Alternatively, efficiency gains were realized by Anglo American when it implemented a program to diagnose and treat HIV, which had the effect of protecting its workforce and reducing turnover (Kramer & Pfitzer, 2016). Finally, we should note that many firms, including but not limited to banks, have been involved in providing microfinance, small loans not ordinarily made by large financial institutions through normal lending channels. Most such efforts represent market seeking approaches, as the recipients of the loans are thereby able to start small business and become consumers themselves. Thus, a variety of different approaches that address various forms of poverty can be supported by multinationals without sacrificing legitimacy.

3.2. Goal 4 (Education)

Multinationals increasingly are providing support for education in the developing world (Amadi and Abdullah, 2012; van Fleet, 2011), typically in markets they serve or in locations where production occurs. Support for education has the effect of improving the quality of a firm's future workforce, and therefore can be justified as a means of resource acquisition. A more educated populace might also open new market opportunities as a result of improved earning potential.

3.3. Goal 8 (Economic Growth and Employment)

Perhaps the most basic function of a multinational's involvement with various localities occurs as an employer. Although a common criticism of multinational employment practices relates to the wage scales applicable in low-wage locales, evidence suggests that multinationals nevertheless tend to pay a wage premium over prevailing local levels (Bhagwati, 2007). That these wage rates are below those of other locales is the justification for the multinationals' investments, specifically the efficiency gains realized by expanding employment in lower-wage regions. It is important to note as well that these multinational commitments will also result in indirect support for poverty reduction (Goal 1), with the accompanying benefits discussed above. Moreover, activities such as Anglo American's health initiatives (Kramer and Pfitzer, 2016), discussed in section 3.1, provide additional benefits to workers beyond the job while also providing efficiency gains to the organization. Thus, support of Goal 8 commonly can be justified on the grounds of efficiency, resources and even markets, and can be combined with other efforts that are consistent with other goals.

3.4. Goals 9 (Sustainable Industrialization and Innovation) and 12 (Sustainable Consumption and Production)

Goals 9 and 12 are considered together for our purposes because of the extent to which actions by multinationals in furtherance of one will likely produce spillover effects in the other. In particular, we are now observing many cases of sustainable innovation resulting in supply chain efficiencies. Veolia, a French conglomerate, has created technology that allows the extraction of resources from street sweepings, while Nike's Flyknit process weaves its footwear, rather than stitching separate pieces together, thereby reducing waste dramatically (Economist, 2016). These kinds of efficiency gains can easily be justified in terms of organizational legitimacy, and again, multinationals have the size and knowledge base to make a significant contribution to efforts in these areas; by one estimate, the largest 700 multinationals account for two thirds of private sector research and development expenditures (Patchell and Hayter, 2013). If even a small proportion of this total is redirected to sustainable technologies, the global impact will be significant.

3.5. Goal 13 (Combat Climate Change)

Partially as a result of their efforts with regard to Goals 9 and 12, multinationals may be able to make a significant contribution to efforts to combat global climate change. For example, as chlorofluorocarbon (CFC) production was being targeted for reduction, DuPont began developing alternatives that ultimately forced competitive reactions, which collectively reduced CFC production industry-wide (Patchell and Hayter, 2013). Similar efforts might be forthcoming in the future with respect to greenhouse-gas-related emissions or other polluting or contaminating substances that have climate-altering potential. Efforts such as these can be couched in terms of resource acquisition, and possibly even strategic resource acquisition if a first mover implements changes that give it a significant competitive advantage in production; this is a close approximation of the outcome of DuPont's investments. Efficiency also is a potential justification for the legitimation of multinational investments in "green" technologies with climate change implications, as some of the new technologies result in lower costs for resource acquisition or use.

As stated at the outset of this section, these are but some examples of actions already taken and potential legitimizing justifications for future actions. What is important for both research and practice is the appreciation of the underlying linkage between multinational sustainability efforts and organizational legitimacy. In each case above, it is possible to sketch this relationship in terms of concrete benefits that can be realized by the multinational because of its specific actions. Apart from reputational gains, these benefits provide a basis for the justification of a multinational's sustainability agenda that can be understood and accepted by a broad range of stakeholders.

What remains to be determined is the extent to which such efforts are successful. The following section identifies and briefly discusses questions that future research may address in order to advance our understanding of multinationals and their involvement in sustainability initiatives.

4. Questions for Future Research

Although multinationals have received a significant amount of attention in the research literature, studies of multinational sustainability activities have not yet reached critical mass. Indeed, much remains unknown in this area. Part of the purpose of this article is to highlight questions that future research might ask and begin to answer. As was true of possible actions supporting the SDGs discussed earlier, this section does not attempt to be exhaustive, but rather to introduce broad themes that can be examined in greater detail as future developments and experience warrant.

4.1. Legitimacy and Contingencies

Section 2 discussed a number of contingencies that can affect the degree of legitimacy realized by an organization. These included factors such as the nature of a firm's stakeholder network and the balance of interests represented therein, the relative pressure sensitivity of the organization given its network, and normative clarity. When considering multinational involvement in sustainability initiatives, one interesting set of questions that can be asked centres on the balance of stakeholder interests with which a firm must deal. Research theorizing or investigating not only the effects of different kinds of stakeholders but also their relative power would be particularly useful in this regard. We can imagine certain kinds of stakeholders being pro-sustainability while others remain sceptical of the benefits of sustainability. At what levels does one or the other prevail? Are there differences within each camp that may affect the decision to engage in sustainable practices? How do the different national environments within which multinationals operate affect the balance of interests?

Independent of these questions, work in institutional theory has established that some organizations are more pressure-resistant than others. In the context of sustainability, does this same observation hold? Is it enhanced or reduced, or is pressure-resistance perhaps an attribute of some types of multinationals but not others? What role does country of origin play in these dynamics?

4.2. SDGs and Priorities

A practical question relating to the SDGs themselves is whether there is any reason to expect multinationals to prioritize one or more on a systematic basis. Section 3 presented a series of examples and scenarios, any and all of which could result in legitimacy for the participating multinational. The question here concerns whether, considering multinationals as a class, certain SDG-related activities generally have greater impacts on legitimacy. If so, would we expect to see multinationals prioritize their involvement? Do any such effects depend on the size of the project in question, its origin or focus, or the company's reputation?

Sequencing of activities also may be a fruitful topic for future research. That is, if a multinational begins to engage with the SDGs, is there some additional benefit that accrues from subsequent supportive activities? Or is subsequent activity subject to diminishing marginal returns to legitimacy? Does this depend on the nature of the activities in question, borrowing again from the issue of possible SDG prioritization? And what role do the stakeholders themselves play?

4.3. Regaining Legitimacy

Another set of questions that would be useful to investigate relates to the loss of organizational legitimacy and any subsequent participation in sustainability endeavours. Here, it would be useful to know the extent to which an organization could regain legitimacy by participating in and supporting the SDGs, and whether there was any differential impact based upon the specific SDGs involved. Perhaps more specifically, is there a difference in the answer to this question based upon the reason for the organization's lack of legitimacy? In other words, does it matter why the organization lacks legitimacy, or are there differences based upon the loss of legitimacy that are due to reasons other than the organization's sustainability agenda? Can an organization regain legitimacy by supporting the SDGs, having once lost legitimacy because of, for example, scandals or strategic failures unrelated to sustainability? Similarly, can multinationals lose legitimacy if their SDG participation yields disappointing results, and if so, what can they do in response? Is there a difference between a lack of results and a series of errors or omissions in the process of SDG participation?

These are some of many possible questions that could be asked and that future research could usefully investigate. As multinationals engage more and more in sustainable practices, perhaps explicitly becoming involved in the attainment of the SDGs as well, the body of results that accumulates will raise other questions or direct subsequent research efforts. But one of the purposes of this article is to draw attention to the basics in order highlight questions that deserve attention. Even preliminary answers can provide support for successful practice.

5. Conclusion

This article relies upon the idea of legitimacy to argue that participation by multinationals in the United Nations' efforts to expand sustainability and economic development through the SDGs can be achieved if the organizations' benefits from participation are recognized. Doing so allows the multinational to justify its involvement to critical stakeholders and thereby maintain or increase legitimacy. The intent of the article thus is to illustrate an analytical framework and process that helps us better understand the need for multinationals to balance competing interests as they decide when and how to participate in sustainability initiatives and what form that participation might take.

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